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State of Utah

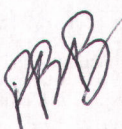
DEPARTMENT OF NATURAL RESOURCES

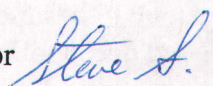
MICHAEL R. STYLER
Executive Director

Division of Oil, Gas and Mining

JOHN R. BAZA
Division Director

October 7, 2015

To: Paul Baker, Minerals Program Manager 

From: Steve Schneider, Administrative Services & Policy Coordinator 

Re: Self-Bonding Request by Gilbert Development Corporation

Pursuant to your request, I have reviewed the Self-Bonding Qualification Worksheet and financial documents submitted by Gilbert Development Corporation (GDC), in regards to their proposed self-bond for the Iron Mountain Mine. Based on the information I currently have, I recommend the Division not support the self-bonding request if presented to the Board of Oil, Gas and Mining in accordance with U.C.A. 40-8-14(3).

The following concerns have been identified thus far with the self-bonding request by GDC:

1. Fixed assets net of depreciation are 62% of the recommended minimum as of the fiscal year ending November 30, 2014, and 58% of the recommended minimum as of August 31, 2015.
2. Financial statements prepared by an independent CPA have only been submitted for the latest fiscal year at November 30, 2014, in contrast to the five years requested on the qualification worksheet. My understanding is that 2014 was the first year for a CPA-prepared report for GDC. CPA-prepared reports provide assurance that the accounting is properly reflected and their report also includes valuable notes to the statements. For example, the 2014 report notes that one customer accounted for 79% of total revenues for the year.
3. The CPA-prepared report included a subsidiary which GDC did not intend to be included in the financial review and self-bonding qualification. As a result, I was provided unsigned, non-dated CPA firm worksheets to demonstrate the financial results solely of GDC on a non-consolidated basis.
4. GDC's internal financial statements were submitted on an inconsistent accounting method, in contrast to the qualification worksheet request for conformity with generally accepted accounting principles (GAAP). More specifically, years 2010 through 2013 were prepared on a tax basis while 2014 and 2015 YTD were prepared on a GAAP basis. Despite this inconsistency, the CPA firm did not agree with the internal GAAP reporting by the company in 2014 and subsequently adjusted important liquidity categories including Current Assets and Current Liabilities by 32% and 53%, respectively. The large adjustments by the CPA to GAAP raised questions on the usability of the company-prepared financial statements for the other years.



5. I have withheld reporting any specific dollar amounts in this letter since GDC specifically requested confidentiality of their financial statements. GDC has stated they do not desire their financial condition to be available to the public. While I understand their request for confidentiality, I believe this will be problematic at the time of the Board hearing. GDC will be requesting the State of Utah to assume the risk of reclamation liability for the Iron Mountain Mine based on their strong company financial condition, but GDC does not want the public to be able to observe such information. I do not recall a prior Board self-bond decision that prevented the citizens from viewing the financial data that the Board would utilize to make a financial decision.

Please let me know if there are additional questions.